

Consolidated Financial Statements



Table of Contents

202	FINANCIAL STATEMENTS
212	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
307	STATEMENT FROM MANAGEMENT
308	INDEPENDENT AUDITORS' REPORT

Financial statements

STATEMENT OF FINANCIAL POSITION

		31.12.2017		31.12.2018	
(€ million)	Notes	Total	<i>of which with related parties</i>	Total	<i>of which with related parties</i>
ASSETS					
Current assets					
Cash and cash equivalents	(8)	719		1,872	
Trade and other receivables	(9)	1,658	475	1,347	420
Inventories	(10)	86		109	
Current income tax assets	(11)	16		10	
Other current tax assets	(11)	21		7	
Other current assets	(12)	56		27	
		2,556		3,372	
Non-current assets					
Property, plant and equipment	(13)	16,033		16,153	
Compulsory inventories	(10)	363		363	
Intangible assets	(14)	850		907	
Investments valued using the equity method	(15)	1,547		1,710	
Other investments	(16)	44		40	
Other receivables	(9)	373	373	1	
Other non-current assets	(12)	50	2	36	1
		19,260		19,210	
TOTAL ASSETS		21,816		22,582	

		31.12.2017		31.12.2018	
(€ million)	Notes	Total	<i>of which with related parties</i>	Total	<i>of which with related parties</i>
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term financial liabilities	(17)	1,373	15	1,976	
Short-term portion of long-term financial liabilities	(17)	1,070		1,657	
Trade and other payables	(18)	1,673	202	1,768	274
Current income tax liabilities	(11)			14	
Other current tax liabilities	(11)	11		9	
Other current liabilities	(19)	79	14	86	27
		4,206		5,510	
Non-current liabilities					
Long-term financial liabilities	(17)	10,176		9,787	
Provisions for risks and charges	(20)	677		665	
Provisions for employee benefits	(21)	58		64	
Deferred tax liabilities	(22)	165		134	
Other non-current liabilities	(19)	346		437	
		11,422		11,087	
TOTAL LIABILITIES		15,628		16,597	
SHAREHOLDERS' EQUITY					
(23)					
Snam shareholders' equity					
Share capital		2,736		2,736	
Reserves		3,167		3,212	
Net profit		897		960	
Negative reserve for treasury shares in the portfolio		(318)		(625)	
Interim dividend		(294)		(298)	
Total Snam shareholders' equity		6,188		5,985	
Minority interests					
TOTAL SHAREHOLDERS' EQUITY		6,188		5,985	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		21,816		22,582	

INCOME STATEMENT

		2017		2018	
(€ million)	Notes	Total	<i>of which with related parties</i>	Total	<i>of which with related parties</i>
Revenue	(26)				
Core business revenue		2,493	1,627	2,555	1,600
Other revenue and income		40	19	31	1
		2,533		2,586	
Operating costs	(27)				
Purchases, services and other costs		(355)	(43)	(311)	(75)
Personnel cost		(171)	(6)	(201)	
		(526)		(512)	
Amortisation, depreciation and impairment losses	(28)	(659)		(690)	
Ebit		1,348		1,384	
Financial income (expenses)	(29)				
Financial expenses		(291)	(1)	(252)	
Financial income		9	6	12	8
Derivatives		(1)		(2)	
		(283)		(242)	
Income and expense from equity investments	(30)				
Equity method valuation effect		161		157	
Other income (expense) from equity investments				2	
		161		159	
Pre-tax profit		1,226		1,301	
Income tax	(31)	(329)		(341)	
Net profit (*)		897		960	
Earnings per share (€ per share) (*)	(32)				
- basic		0.262		0.286	
- diluted		0.258		0.280	

(*) Entirely held by Snam shareholders.

STATEMENT OF COMPREHENSIVE INCOME

	2017	2018
(€ million)	Total	Total
Net profit (*)	897	960
Other components of comprehensive income		
<i>Components that can be reclassified to the income statement:</i>		
Change in fair value of cash flow hedge derivatives	(8)	(26)
Portion of equity investments valued using the equity method pertaining to "other components of comprehensive income"	(3)	(1)
Tax effect	2	6
	(9)	(21)
<i>Components that cannot be reclassified to the income statement:</i>		
Actuarial gains/(losses) on remeasurement of employee benefit plans	(1)	
Share of remeasurements of defined benefit plans for employees of investments accounted for using the equity method pertaining to "other components of comprehensive income"	1	
Change in fair value of minority share measured at Fair Value Through other comprehensive income - FVTOCI		1
Total other components of comprehensive income, net of tax effect	(9)	(20)
Total comprehensive income (*)	888	940

(*) Entirely held by Snam shareholders.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

		Attributable to Snam's shareholders													
(€ million)		Share capital	Negative reserve for treasury shares in the portfolio	Share premium reserve	Legal reserve	Reserve for fair value of cash flow hedging derivatives net of tax effect	Reserve for defined-benefit plans for employees net of tax effect	Consolidation reserve	Other reserves	Retained earnings	Profit for the year	Interim dividend	Total	Minority interests	Total shareholders' equity
Balance at 31 December 2016 (A)	(Note 23)	2,736	(108)	1,140	547	(2)	(7)	(674)	35	1,969	861		6,497		6,497
Profit for 2017											897		897		897
Other components of comprehensive income															
Components that can be reclassified to the income statement:															
Share of "other components of comprehensive income" of investments accounted for using the equity method									(3)				(3)		(3)
Change in fair value of cash flow hedge derivatives						(6)							(6)		(6)
						(6)			(3)				(9)		(9)
Components that cannot be reclassified to the income statement:															
Actuarial gains (losses) on remeasurement of defined-benefit plans for employees							(1)						(1)		(1)
Share of remeasurements of defined benefit plans for employees of investments accounted for using the equity method pertaining to "other components of comprehensive income"									1				1		1
							(1)		1						
Total comprehensive income for 2017 (B)						(6)	(1)		(2)		897		888		888

Attributable to Snam's shareholders															
(€ million)		Share capital	Negative reserve for treasury shares in the portfolio	Share premium reserve	Legal reserve	Reserve for fair value of cash flow hedging derivatives net of tax effect	Reserve for defined-benefit plans for employees net of tax effect	Consolidation reserve	Other reserves	Retained earnings	Profit for the year	Interim dividend	Total	Minority interests	Total shareholders' equity
Transactions with shareholders:															
Allocation of dividend for 2016 (€ 0.21 per share)											(718)		(718)		(718)
Allocation of 2016 residual net profit										143	(143)				
Allocation of dividend for 2017 (€ 0.0862 per share)												(294)	(294)		(294)
2017-2019 Share-based Incentive Plan									1				1		1
Acquisition of treasury shares			(210)										(210)		(210)
Total transactions with shareholders (C)			(210)						1	143	(861)	(294)	(1,221)		(1,221)
Other changes in shareholders' equity:															
Equity component of the convertible bond									17				17		17
Other changes									7				7		7
Total other changes in shareholders' equity (D)									24				24		24
Balance at 31 December 2017 (E = A + B + C + D)	(Note 23)	2,736	(318)	1,140	547	(8)	(8)	(674)	58	2,112	897	(294)	6,188		6,188

		Equity pertaining to Snam shareholders														
(€ million)		Share capital	Negative reserve for treasury shares in the portfolio	Share premium reserve	Legal reserve	Reserve for fair value of cash flow hedging derivatives net of tax effect	Reserve for defined-benefit plans for employees net of tax effect	Reserve for fair value of minority equity investments (FVTOCI)	Consolidation reserve	Other reserves	Retained earnings	Profit for the year	Interim dividend	Total	Minority interests	Total shareholders' equity
Balance at 31 December 2017	(Note 23)	2,736	(318)	1,140	547	(8)	(8)		(674)	58	2,112	897	(294)	6,188		6,188
Effects of the first time adoption of the provisions of IFRS 9											8			8		8
Balance at 1 January 2018 (A)		2,736	(318)	1,140	547	(8)	(8)		(674)	58	2,120	897	(294)	6,196		6,196
Net profit for 2018												960		960		960
Other components of comprehensive income																
Components that can be reclassified to the income statement:																
Share of "other components of comprehensive income" of investments accounted for using the equity method										(1)				(1)		(1)
Change in fair value of cash flow hedge derivatives						(20)								(20)		(20)
						(20)				(1)				(21)		(21)
Components that cannot be reclassified to the income statement:																
Change in fair value of equity investments measured at fair value with effect on OCI								1						1		1
								1						1		1
Total comprehensive income for 2018 (B)						(20)		1		(1)		960		940		940

		Equity pertaining to Snam shareholders														
(€ million)		Share capital	Negative reserve for treasury shares in the portfolio	Share premium reserve	Legal reserve	Reserve for fair value of cash flow hedging derivatives net of tax effect	Reserve for defined-benefit plans for employees net of tax effect	Reserve for fair value of minority equity investments (FVTOCI)	Consolidation reserve	Other reserves	Retained earnings	Profit for the year	Interim dividend	Total	Minority interests	Total shareholders' equity
Transactions with shareholders:																
Allocation of dividend for 2017 (€ 0.0862 per share)												(294)	294			
2017 dividend balance (*)												(437)		(437)		(437)
Allocation of 2017 residual net profit											166	(166)				
Allocation of dividend for 2018 (€ 0.0905 per share)													(298)	(298)		(298)
2017-2019 Share-based Incentive Plan										3				3		3
Acquisition of treasury shares			(426)											(426)		(426)
Total transactions with shareholders (C)			(426)							3	166	(897)	(4)	(1,158)		(1,158)
Other changes in shareholders' equity:																
Other changes			119	(119)						7				7		7
Total other changes in shareholders' equity (D)			119	(119)						7				7		7
Balance at 31 December 2018 (E = A + B + C + D)		(Note 23)	2,736	(625)	1,021	547	(28)	(8)	1	(674)	67	2,286	960	(298)	5,985	5,985

(*) The dividend (interim and final) totals euro 0,2155 per share.

CASH FLOW STATEMENT

(€ million)	Notes	2017	2018
Net profit		897	960
Adjustments for reconciling net profit with cash flows from operating activities:			
Total amortisation and depreciation	(27)	646	682
Impairment losses on tangible and intangible fixed assets	(27)	13	8
Equity method valuation effect	(14)	(161)	(157)
Net capital losses (capital gains) on asset sales, cancellations and eliminations		4	12
Dividends			(2)
Interest income		(9)	(12)
Interest expense		265	230
Income tax paid	(30)	329	341
Other changes			3
Changes in working capital:			
- Inventories		(42)	(33)
- Trade receivables		1	41
- Trade payables		(26)	76
- Provisions for risks and charges		16	9
- Other assets and liabilities		385	92
<i>Working capital cash flow</i>		<i>334</i>	<i>185</i>
Change in provisions for employee benefits		13	7
Dividends collected		149	151
Interest collected		2	4
Interest paid		(265)	(230)
Income taxes paid net of reimbursed tax credits		(353)	(356)
Net cash flow from operating activities		1,864	1,826
<i>- of which with related parties</i>	<i>(33)</i>	<i>1,641</i>	<i>1,683</i>
Investments:			
- Property, plant and equipment	(13)	(950)	(772)
- Intangible assets	(14)	(66)	(77)
- Change in scope of consolidation and business units		(166)	(32)
- Equity investments		(111)	(165)
- Long-term financial receivables		(154)	(148)
- Change in payables and receivables relating to investment activities		(33)	(13)
<i>Cash flow from investments</i>		<i>(1,480)</i>	<i>(1,207)</i>
Divestments:			
- Property, plant and equipment		3	2
- Long-term financial receivables			519
- Equity investments		36	21
<i>Cash flow from divestments</i>		<i>39</i>	<i>542</i>

(€ million)	Notes	2017	2018
Net cash flow from investment activities		(1,441)	(665)
<i>- of which with related parties</i>	(33)	(204)	(188)
Assumption of long-term financial debt		3,129	1,810
Repaying long-term financial debt		(1,465)	(1,608)
Increase (decrease) in short-term financial debt		(124)	597
Change in short-term financial receivables		(350)	350
		1,190	1,149
Acquisition of treasury shares		(210)	(426)
Dividends paid to Snam shareholders		(718)	(731)
Net cash flow from financing activities		262	(8)
<i>- of which with related parties</i>	(33)	(3)	(14)
Net cash flow for the period		685	1,153
Cash and cash equivalents at start of period	(8)	34	719
Cash and cash equivalents at end of period	(8)	719	1,872

(*) For the purposes of the Statement of Cash Flows only, the flow includes : (i) the change in inventories of pipelines and related ancillary materials used in plant construction activities, relating to the natural gas transmission sector (10 million euro and 11 million euro respectively for 2017 and 2018); (ii) private contributions recorded for investment activities involving the transportation segment so-called "rivalse" (reclamation works for third parties), 8 million euro and 22 euro million respectively for 2017 and 2018.

Certification of the consolidated financial statements pursuant to Article 154-*bis*, paragraph 5 of Legislative Decree No. 58/98 (Consolidated Finance Act)

1. The undersigned Marco Alverà and Franco Pruzzi, as the Chief Executive Officer and the Manager responsible for preparing the Company's financial reports of Snam S.p.A., respectively, certify, taking into account Article 154-*bis*, paragraphs 3 and 4 of Legislative Decree No. 58 of 24 February 1998:
 - the adequacy, considering the Company's characteristics, and
 - the effective implementation of the administrative and accounting procedures for the preparation of the consolidated financial statements during the course of 2018.
2. The administrative and accounting procedures for the preparation of the consolidated financial statements as at 31 December 2018 were defined and their adequacy was assessed using the rules and methods in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, which represents a benchmark framework for the internal control system generally accepted at international level.
3. It is also certified that:
 - 3.1 The consolidated financial statements as at 31 December 2018:
 - a) were prepared in accordance with the applicable international accounting standards recognised in the EU pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
 - b) are consistent with the accounting records and ledgers;
 - c) are able to provide a true and fair view of the financial position, results of operations and cash flows of the issuer and of the companies included in the scope of consolidation.
 - 3.2 The Report on operations includes a reliable analysis of the operating performance and results, as well as the position of the issuer and of all the companies included in the scope of consolidation, together with a description of the principal risks and uncertainties to which it is exposed.

18 February 2019

/Signature/Marco Alverà

Marco Alverà
Chief Executive Officer

/Signature/Franco Pruzzi

Franco Pruzzi
Manager responsible for preparing the
Company's financial reports

Independent Auditors' report

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Snam SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Snam Group (the Group), , which comprise the consolidated statement of financial position as of 31 December 2018, the consolidated [income statement, statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of ABC SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhler 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

www.pwc.com/it

Key Audit Matters

Auditing procedures performed in response to key audit matters

First year of the engagement

At the AGM 25 April 2018 the shareholders of Snam SpA engaged PwC to perform the statutory audit of the separate and consolidated financial statements for the years 2018 to 2026.

The complexity of the Company and of its Group as well as of the regulatory environment for the businesses of gas transportation, regasification and storage in which the Snam Group operates were key matters requiring in-depth analysis in the course of our first year on the engagement.

As part of our audit procedures we interviewed the Group's top management in particular to understand the regulatory environment for the businesses of gas transportation, regasification and storage.

We obtained a specific understanding of the key accounting choices made by the Snam Group and obtained documentary evidence and the rationale for the key accounting matters referred to the consolidated financial statements as of 31 December 2017.

We reviewed the working papers of the predecessor auditor on the audit of the 2017 consolidated financial statements and discussed with it the audit method adopted in the previous year, the materiality threshold applied, accounting choices made by the Snam Group in the previous year's financial reporting and the findings from the audit of the 2017 consolidated financial statements.

Investment in property, plant and equipment and intangible assets and related impairment tests

Note 13 "Property, plant and equipment" and Note 14 "Intangible assets" of the Notes to the consolidated financial statements as of 31 December 2018.

Property, plant and equipment and Intangible assets amounted to Euro 17,060 million as of 31 December 2018, accounting for 89% of total non-current assets.

The gas transportation, storage and regasification

As part of our audit procedures we analysed, understood and assessed the Group's internal control system in relation to the business processes "Assets" and "Investments" underlying the correct capitalisation of expenditure and the management of fixed

businesses in which the Snam Group operates are characterised by specific regulations issued by the Italian Regulatory Authority for Energy, Networks and the Environment (“ARERA”). In detail, revenues of the three operating businesses of the Group are determined by ARERA based on a predefined return on capital expenditure (on tangible and intangible assets), depreciation/amortisation charges and certain operating costs.

In consideration of the significant amounts of capital investments, we identified a focus area relating to the appropriate recognition of assets in accordance with international financial reporting standards IAS 16 “Property, plant and equipment” and IAS 38 “Intangible assets”.

During the year the Snam Group invested around Euro 882 million mainly on infrastructure for gas transportation (Euro 764 million), storage (Euro 99 million) and regasification (Euro 9 million).

At the year end, management considered it appropriate to test property, plant and equipment and intangible assets for impairment, regardless of the existence of possible impairment indicators, in consideration of the materiality of the amounts involved. Impairment tests were performed for each of the gas generating units (CGUs) in which the Snam Group operates, which coincide with the individual entities operating in the regulated businesses (transportation, regasification and storage), with the entities Snam 4 Mobility and Cubogas for the business Compressed Natural Gas (CNG), with the entities Ies Biogas and Enersi operating in the bio-methane business and with TEP Energy Solution for the energy efficiency businesses.

The recoverability of the values of fixed assets is tested by comparing the carrying amount with the recoverable amount, which is the higher of fair value and value in use.

assets.

We identified and validated the operation and effectiveness of relevant (manual and automated) controls over those processes, also using the support of experts in IT systems and business process analysis belonging to the PwC network.

We verified the reconciliation of the asset register to the general ledger, recalculated depreciation charges, on a test basis, and verified decreases of the period, on a test basis.

In relation to additions of the period we selected a sample of transactions and verified the correct application of the capitalisation criteria required by the applicable financial reporting standards.

We analysed projects included in assets under construction and discussed with management the key items of expenditure, their nature and, for the oldest projects, the possibility of the assets having become impaired.

We examined the method applied by management to identify and assess possible indicators of impairment of the assets and to perform impairment testing.

We obtained the impairment test performed by the Company and met management to understand the method of its performance. For the regulated businesses, we obtained and tested the estimated RAB used by ARERA for tariff calculations as of 31 December 2018 and verified that the value matched those included in the Tariff Proposals prepared for the year 2019 and approved by ARERA, respectively, with Resolution 280/2018 for the gas transportation business, Resolution 696/2018 for gas storage and Resolution 695/2018 for the regasification business.

We verified that the carrying amounts of assets

In detail, the recoverable amounts of assets included in the regulated businesses is estimated by management by reference to the capital invested used by ARERA to calculate the applicable tariffs (the Regulatory Asset Base, “RAB”), which market operators consider the minimum measurement of fair value for those assets.

used in impairment testing matched those in the consolidated financial statements and we re-performed the impairment tests.

For the CGU Snam 4 Mobility we obtained the value in use used by management in the impairment test; we then analysed the key assumptions underlying the revenues and costs extracted from the forecasts set out in the Business Plan 2019-2022 and verified the mathematical accuracy of the model.

In those analyses we used the support of experts from the PwC network for the examination of the valuation models used and discount rates adopted by management.

Finally, we verified the accuracy and completeness of disclosures presented in note 13 to the consolidated financial statements as of 31 December 2018.

Measurement of equity investments

Note 15 “Investments valued under the equity method” to the consolidated financial statements as of 31 December 2018.

The balance of equity investments in entities measured under the equity method as of 31 December 2018 was Euro 1,710 million and relates mainly to equity investments in foreign joint ventures.

As part of our audit procedures we analysed, understood and evaluated the Group’s internal control system in relation to the business process “Financial reporting” which includes specific controls related to impairment testing.

Equity investments in associates and joint ventures are measured under the equity method, and when indicators of impairment are identified they are tested for impairment by comparing the carrying amount with the recoverable amount, which is the higher of fair value and value in use. Based on the activities performed, management did not identify any impairment loss on equity investments as of 31 December 2018.

We examined the method adopted by management to identify and assess possible indicators of impairment of equity investments. In this connection, we compared the carrying amounts of equity investments in associates and joint ventures with the corresponding equity as of 31 December 2018 and we analysed their performance against the related budgets.

We identified a key audit matter concerning the

We discussed with management and with the auditors of associates and joint ventures the

measurement of equity investments in entities valued under the equity method with regard to the risk of impairment losses, in consideration of the materiality of the balance and the fact that the valuation process involves a high degree of judgement by management in assessing possible impairment indicators and, where necessary, in estimating the recoverable amount.

performance of the investees and the information used in the impairment tests.

We obtained the impairment tests performed by the Company and held meetings with management to understand the method of performance, which was based on stockmarket prices for the listed companies (Italgas) and the Dividend Discount Model (DDM) for the other entities.

We verified the method applied for the preparation of the impairment tests, the accuracy of the valuation models adopted, and the reasonableness of the assumptions used.

In those analyses we used the support of experts from the PwC network for the examination of the valuation models used.

Finally, we verified the accuracy and completeness of disclosures provided in note 15 to the consolidated financial statements as of 31 December 2018.

Revenue recognition

Note 4 “Measurement criteria” and Note 25 “Revenues” to the consolidated financial statements as of 31 December 2018.

Revenue recognition for regulated businesses is governed by the regulatory framework established by ARERA, therefore the rates applied to services rendered are defined by a regulatory scheme rather than by contract. In detail, with regard to the gas transportation business, the difference between the revenues allowed by the regulator (the “revenue cap”) and revenues actually billed/to be billed to customers is recognised on the line ‘Other assets’ if positive or on the line ‘Other liabilities’ if negative. The difference shall be transferred to the income statement in subsequent years in the form of changes to tariffs.

As part of our audit procedures we analysed, understood and evaluated the Group’s internal control system in relation to the business process “Assets” which includes specific controls related to revenue recognition.

We identified and validated the operation and effectiveness of relevant (manual and automated) controls over those processes, also using the support of experts in IT systems and business process analysis belonging to the PwC network.

With regard to the gas regasification and storage businesses, instead, the difference between the revenues allowed by the regulator and revenues billed is recognised on the line 'Trade and other receivables' if positive, and 'Trade and other payables', if negative, because it will be the subject of monetary settlement with Cassa per i Servizi Energetici e Ambientali (CSEA, a public sector entity that manages certain tariff components paid by power, gas and water operators).

In consideration of the significant volume of transactions and the complexity of the regulations applicable to the quantification of revenues, we identified the revenue recognition process as a key audit matter with reference to the correct calculation of revenues.

We verified the reconciliation of revenue figures with the revenue cap identified by ARERA in its resolutions approving revenues for the year 2018 for the gas transportation, storage and regasification businesses.

We verified the correct calculation of the difference between revenues allowed by ARERA and revenues earned, for each business, based on the difference between the revenue caps and amounts billed to customers during the year.

Finally, we carried out balance confirmation procedures with third parties to obtain documentary evidence supporting the trade receivables reported in the consolidated financial statements. For the parties where we did not receive balance confirmations we performed alternative procedures on the balance as of 31 December 2018 to obtain relevant and reliable supporting evidence.

Other aspects

The consolidated financial statements of Snam Group as of and for the year ended 31 December 2017 were audited by another auditor, who issued an unqualified report thereon dated 29 March 2018.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated

financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate Snam SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 24 April 2018 the shareholders of Snam SpA in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statements for the years ending 31 December 2018 to 31 December 2026.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Snam SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Snam Group as of 31 December 2018, including



their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Snam Group as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Snam Group as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

The directors of Snam SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.

We have verified that the directors approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves

Milan, 11 March 2019

PricewaterhouseCoopers SpA

Signed by

Giulio Grandi
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers